



dfi

2003 Annual Report

# A Message from the Governor



As governor of Washington State, I am pleased to present the Department of Financial Institution's (DFI) 2003 Annual Report. In it you will see the vital role that DFI plays in our state economy by regulating and supporting the financial services industry in Washington. You will also find useful information about banks, credit unions, and other financial institutions doing business in our state,

plus data on the burgeoning loan industry and securities and investment markets.

Our state's economic future depends to a great extent upon the continued stability of financial services providers. Washington's industry remains strong and healthy in this regard, thanks largely to the watchfulness of DFI.

In addition, DFI has become increasingly proactive in helping the public understand how to use financial services properly. One of its most important functions is protecting consumers against possible illegal or unethical activities through proper industry regulation. This is good for families and good for business statewide.

I am confident that you will find this report to be a valuable and informative resource.

Sincerely,

Gary Locke  
Governor

A handwritten signature of Gary Locke in blue ink. The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

# To Governor Locke and The People of Washington



I am pleased to present our 2003 annual report highlighting the record and accomplishments of the Washington State Department of Financial Institutions (DFI).

The Department regulates Washington financial services providers, including: banks; credit

unions; mortgage brokers; consumer loan companies; and securities brokers, issuers, and salespeople. With the rapid change in the industry due to improvements in technology and the introduction of new products, I continue to be impressed with the Agency's staff and their ability to adapt and embrace the complexities of today's environment. Undoubtedly, the level of commitment and expertise found at DFI is unmatched.

As the Department works to promote economic vitality and preserve integrity in our state's financial markets, our role in protecting the public from fraud has grown significantly. Consumer access to credit is larger than ever before – an opportunity carrying increased

risk to those unaware of the potential for abuse. Although enforcement is one way to eliminate fraudulent activities, we are most effective when coupling enforcement with a proactive approach to educating consumers. With this in mind, DFI took additional steps to provide consumers with the tools necessary to make better-informed financial decisions.

The Department continues to strengthen its relationships with fellow regulators and government agencies. Across the nation, we are recognized as leaders with a vigilant and innovative approach to regulation. The experience of our enforcement team is routinely called upon to lead multi-state investigations – succeeding in returning millions of restitution dollars to victims. As a result of the dedication of our employees, the reputation of the Washington State DFI is strong.

Within these pages you will find a wide range of information relating to the work of this agency and the condition of the financial services providers we regulate. On behalf of the 139 dedicated employees at DFI, this report is respectfully presented.

Sincerely,

A handwritten signature in blue ink that reads "Helen P. Howell". The signature is fluid and cursive.

Helen P. Howell  
Director

## 2003 Annual Report

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## Our Mission

*DFI regulates our State's financial services industry to protect the public, promote economic vitality, and preserve integrity in the marketplace.*

# Department Overview

The Department of Financial Institutions (DFI) was established in October 1993 by Chapter 43.32 RCW. Its historic roots date back to the early 1900s with the organization of the Division of Banking in 1907 and the Division of Securities in the 1930s.

The Department is comprised of five divisions: Administration, Banks, Consumer Services, Credit Unions, and Securities. DFI is self-supported primarily by fees and assessments paid by regulated entities, and receives no taxpayer dollars. With regard to securities revenues, the Department retains 13 percent of these revenues to fund its activities. By statute, the remaining 87 percent is transferred to the General Fund to support general government operations. The Department receives no state general fund or federal monies to support its operations.

The Department conducts four core programmatic activities:

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### CHARTERING, LICENSING AND REGISTRATION

The Department of Financial Institutions evaluates and approves new bank and credit union applications, mergers, conversions, branches, and corporate governance changes. The Department also conducts licensing, registration and exemption activities for the following financial entities and persons: broker-dealers, broker-dealer representatives, investment advisers, investment adviser representatives, securities issuers, franchises, franchise brokers, business opportunities, escrow agents, escrow officers, mortgage brokers, check cashers and sellers (payday lenders), money transmitters, currency exchangers, and consumer loan companies.



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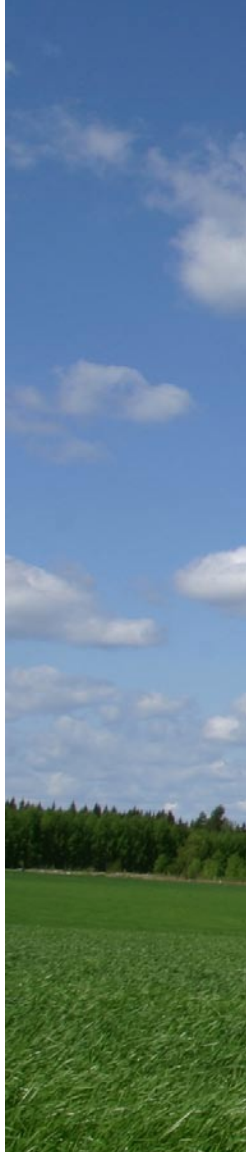
## EXAMINATIONS

The Department performs several types of examinations. The three primary examinations are: (1) Compliance and for cause examinations of securities broker dealers, mortgage brokers, mortgage broker-dealers, investment advisers, escrow agents, escrow officers, debenture companies, check cashers and sellers (payday lenders), consumer loan companies, money transmitters, and currency exchangers; (2) safety and soundness examinations of banks, credit unions, debenture companies, money transmitters, trust companies, Small Business Association (SBA) lenders and industrial development corporations; and (3) information system examinations of banks and credit unions.

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## ENFORCEMENT

The Department conducts various types of supervisory, surveillance and enforcement activities to detect and take corrective action for violations of the regulatory and anti-fraud statutes applicable to financial institutions. Activities include: complaint processing, investigation, and appropriate action against securities issuers and brokers, investment advisers, mortgage brokers, check cashers and sellers (payday lenders), money transmitters, currency exchangers, consumer loan companies and escrow agents; and examination of banks and credit unions. Coordination with and assistance to other law enforcement agencies and prosecutors, and providing testimony in courts of law are additional activities associated with enforcement.





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## EDUCATION AND PUBLIC OUTREACH

The Department conducts consumer education and outreach activities, and provides technical assistance and regulatory guidance to banks, credit unions, securities and consumer lending industry participants. Activities include: presentations, town meetings, press conferences, technical assistance, advisory letters and bulletins, and other related activities that provide education and information to assist consumers.

# DFI Facts at a Glance

|  |                          |
|--|--------------------------|
| Total budgeted staff                             | 139                      |
| Staff composition by gender                      | 55.5% female, 44.5% male |
| Total biennial agency budget                     | \$30 million             |
| Ethnic composition of workforce                  | 29% is racially diverse  |
| Number of complaints resolved                    | 1,517                    |
| Total fines and penalties collected              | Over \$7 million         |
| Number of enforcement actions                    | 173                      |
| Banks, thrifts & trust companies combined assets | Over \$105 billion       |
| Amount of loans made by payday lenders           | \$1,069,097,758          |
| Total assets of state chartered credit unions    | \$16.2 billion           |
| Amount of restitution ordered to consumers       | \$21.9 million           |
| Consumer education presentations given           | 95                       |
| Amount of money contributed to the General Fund  | Over \$24 million        |

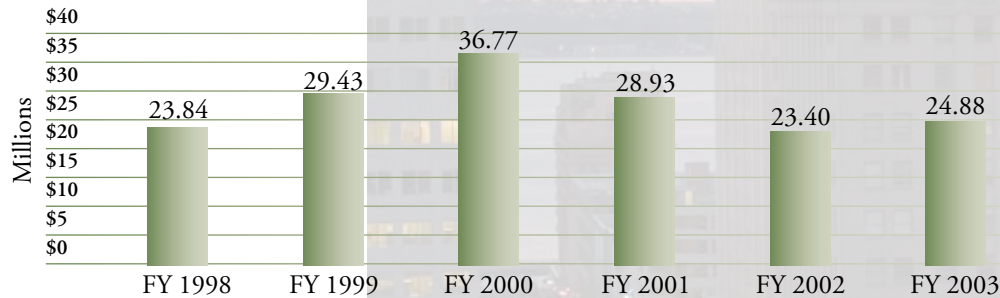
1% OTHER  
ENFORCEMENTS, INVESTIGATIONS, ETC.

42% EXAMINATIONS

49% ASSESSMENTS

8% LICENSES

### DFI REVENUES BY CATEGORY



### DFI CONTRIBUTIONS TO THE GENERAL FUND

(\*REVENUES FLUCTUATE SIGNIFICANTLY DEPENDING ON STOCK MARKET ACTIVITY)



# 2003 Highlights

The year was notable for many initiatives in consumer protection and financial institution regulation. In addition, the Department administered technical and procedural changes that benefited Washington consumers and regulated entities, and DFI staff.

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## DFI MOVES TO NEW FACILITY

In order to improve working conditions for its staff, DFI successfully completed an agency move to a new facility in Tumwater, Washington.

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## FIRST NEW CREDIT UNION CHARTERED IN TEN YEARS

The first new Washington state chartered credit union since 1993 opened for business in December. TULIP (Thurston Union Low Income People) Credit Union is also the first low-income designated credit union with the purpose of serving individuals who typically do not have an account at a financial institution.

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## HOUSEHOLD/BENEFICIAL FINANCE SETTLEMENT

In December 2003, restitution checks totaling \$21.15 million were mailed to 10,419 Washington consumers who were overcharged for home loans by Household Finance and Beneficial Finance. This settlement provided the largest direct consumer restitution ever in a state or federal predatory lending case. DFI led the national investigation effort.

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## DFI ANALYST CASES

As a result of DFI's role as a lead state in the settlement of Wall Street investment analyst cases, the Department collected over \$7 million in fines and penalties – the majority of which was transferred to the State General Fund.

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## OVERDRAFT PROTECTION EXAM QUESTIONNAIRE

The Department issued an exam questionnaire to state-chartered banks, thrifts, and credit unions asking about their practices on overdraft protection programs. DFI subsequently published *Guidance and Best Practices for Overdraft Protection Programs* for use by the industry to ensure the programs are being administered consistently and to give consumers added protection.

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## ENFORCEMENT ACTIONS AGAINST NATIONSCAPITAL MORTGAGE

The Department issued a final order against Nationscapital Mortgage Corp., resulting in approximately \$1.5 million in restitution to consumers, and fines against the company and individuals for a number of deceptive practices.

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## ZNETIX/HMC

DFI worked with federal prosecutors to uncover a maze of domestic and offshore accounts used to conceal investor funds totaling close to \$100 million. During the three-year investigation of Znetix/HMC, DFI spent an estimated 12,000 hours uncovering the scheme which involved over 5,000 investors from 36 states and several foreign countries.

# Technological Improvements

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## IT SECURITY IMPROVED

To improve security and protection of the agency's Information Technology, DFI developed a security program and implemented a new network security architecture.

To reduce the risk of infection of IT resources, DFI staff implemented a patch management process to ensure that the latest software patches are applied to all PCs and servers in the agency. These changes ensure business continuity in the event of a disaster.

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## ELECTRONIC FILING OF MUTUAL FUNDS


DFI expanded the system of electronic filing of mutual funds to over 50 percent of applicants. This eliminates double entry of thousands of applications, thereby reducing processing time, and significantly reducing revenue errors.

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## NEW ELECTRONIC LEAVE SYSTEM

The agency successfully implemented a new electronic leave system that allows for electronic tracking, routing and approval of all leave requests. This system eliminated the need to manually process and approve leave slips. The new system allows an approving supervisor to see current leave balances at time of approval.





# Legislative Highlights

Catherine Mele-Hetter, Policy Director

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## SHB 1081 – MORTGAGE LENDING FRAUD PROSECUTION ACCOUNT (RCW 43.320)

The passage of SHB 1081 created a prosecution fund to aid prosecutors in bringing mortgage lending fraud cases. The fund is comprised of money collected by county auditors. A \$1 fee is charged for each recording of a deed of trust, and those fees are deposited into the fund which is held by the State Treasurer and managed by DFI. This year the Agency worked with the Attorney General and the Washington Association of County Prosecutors to develop a process for the distribution of funds to local prosecutors.

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## SHB 1219 – ENHANCEMENTS TO THE SECURITIES ACT OF WASHINGTON (RCW 21.20)

The passage of SHB 1219 provided a number of enhancements to the Securities Act of Washington and the enforcement tools available to DFI. The new legislation created a prosecution fund to aid local prosecutors in the bringing of securities fraud and other investment fraud related cases. The legislation added a new crime for any person who knowingly alters, destroys, shreds or conceals documents to prevent their use in civil or criminal proceedings under the Securities Act. The legislation also increased all fines and penalties and made violation of a DFI cease and desist order subject to a specific fine of \$25,000. New remedies available in the act include obtaining an accounting, disgorgement of illegal profits, and restitution to investors.

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## SHB 1455 – UNIFORM MONEY SERVICES ACT (RCW 19.230)

The passage of SHB 1455 required all companies offering money transmitter or currency exchange services to be licensed and examined by the Department of Financial Institutions. This legislation established a state system of licensure and regulation to:

- ensure the safe and sound operation of money transmission and currency exchange businesses;
- promote confidence in the state's financial system;
- protect the public interest; and
- ensure that these businesses are not used for criminal purposes.

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## SSB 5452 – AN UPDATE TO PAYDAY LENDING PROVISION (RCW 31.45)

The passage of SSB 5452 modified the law relating to check cashers and sellers (payday lenders). In brief, the legislation increased the maximum amount of a small loan from \$500 to \$700, and extended the loan time period to a maximum of 45 days. Among other changes, consumers now have the option of negotiating a repayment plan when they have had four successive loans with a company and are at risk of default on the last loan. The legislation also added a right of rescission and a prohibition on certain collection practices.

# A Leader Among States

Joseph M. Vincent, Legal Counsel

The Department of Financial Institutions is recognized as a leader among regulators across the country, and continues to develop innovative approaches to regulation.

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## OCC PREEMPTION

DFI submitted a letter of opposition to the Office of the Comptroller of the Currency (OCC) in response to a proposal that would preempt state laws for national banks and their state licensed subsidiaries. DFI challenged the OCC's call for preemption on the grounds that it would:

- undermine the protection of consumers against predatory lending and other unfair and deceptive practices;
- impede the positive role of state government in regulating consumer financial services; and
- usurp the authority of Congress through attempted lawmaking rather than rule making.

DFI joined the National Governors' Association, the National Association of Attorneys General, the National Conference of State Legislatures, the Conference of State Bank Supervisors (CSBS), the North American Securities Administrators Association, the American Association of Residential Mortgage Lenders, and the National Association of Consumer Credit Administrators in opposition to the OCC's preemption proposals. As a result of DFI's proactive stand, Director Howell was invited to speak in Washington D.C. at the "Women in

Housing and Finance Symposium: Federal Preemption Versus State Enforcement." Text from her speech was reprinted in several trade magazines and mentions were made in the American Banker.

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## OVERDRAFT PROTECTION INQUIRY

DFI led the country in issuing an exam questionnaire to state-chartered financial institutions to determine how overdraft protection programs were being administered. The Department presented the general findings of the examination to the State House Financial Institutions and Insurance Committee.

The exam questionnaire covered numerous issues relating to the way financial institutions offer overdraft protection programs including: advertising and marketing; availability and notice; third party vendors; disclosure; dollar limits; pay/no pay decisions; overdraft charges; available balance issues; ATM issues; and whether the option to be included or not included in the program was offered.

DFI found that most Washington institutions act reasonably and responsibly in offering these programs to consumers. However, there are areas where our institutions can improve. The Department subsequently published *Guidance and Best Practices for Overdraft Protection Programs* for the industry's use to ensure consistent program administration and offer consumers added protection. Being one of the first states to address this issue - the Department's actions were referenced by state and federal regulators as standards were developed across the country. DFI's proactive approach was featured in both local and national newspapers and trade magazines.



# National Board and Committee Participation

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## HELEN HOWELL – FFIEC STATE LIAISON COMMITTEE

The Federal Financial Institutions Examination Council (FFIEC) is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions and to make recommendations to promote uniformity in the supervision of financial institutions. The State Liaison Committee is composed of five representatives of state agencies that supervise state-chartered financial institutions. [www.ffiec.gov](http://www.ffiec.gov)

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## DEB BORTNER - BOARD OF DIRECTORS, NASAA AND TRUSTEE, IPT

The North American Securities Administrators Association (NASAA) is an international organization devoted to investor protection. In the United States, NASAA is the voice of the 50 state securities agencies responsible for efficient capital formation and grass roots investor protection. [www.nasaa.org](http://www.nasaa.org) The Investor Protection Trust (IPT) serves as an independent source of non-commercial investor education materials. IPT operates programs under its own auspices and uses grants to underwrite important initiatives carried out by other organizations. [www.investorprotectiontrust.org](http://www.investorprotectiontrust.org)

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## CHUCK CROSS – BOARD OF DIRECTORS, AARMR

The American Association of Residential Mortgage Regulators (AARMR) promotes the exchange of information among executives and employees of various states who are charged with the responsibility for the administration and regulation of residential mortgage lending, servicing and brokering. [www.aarmr.org](http://www.aarmr.org)

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## LINDA JEKEL – BOARD OF DIRECTORS, NASCUS

The National Association of State Credit Union Supervisors (NASCUS) represents state-chartered credit unions. NASCUS' mission is to advocate for a strong and innovative state credit union system that benefits state credit union regulatory agencies and state credit unions. [www.nascus.org](http://www.nascus.org)

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## DAVE KROEGER – CSBS SUPERVISORY COMMITTEE

The Conference of State Bank Supervisors (CSBS) brings all state banking departments together to present a unified voice in Washington DC. It is considered a clearinghouse for ideas to solve common problems of state bank regulators and works to encourage competitive chartering options, efficient and effective supervision, and a lower cost of regulation for all banks. [www.csbs.org](http://www.csbs.org)

# Consumer Outreach & Media

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## FINANCIAL LITERACY AND CONSUMER EDUCATION

A key component of DFI's strategy to protect consumers is to develop education and information resources. Resources are designed to assist consumers in making better-informed financial decisions.

When over 10,000 Washington consumers became victims in the largest predatory lending case in our nation's history, Household/Beneficial, DFI recognized the need to make a greater difference in this arena. Evidence suggests that informed consumers can better protect themselves from predatory lenders and others who seek to take advantage of them financially. However, reaching consumers before they enter into financial transactions is key.

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## WSU RESEARCH

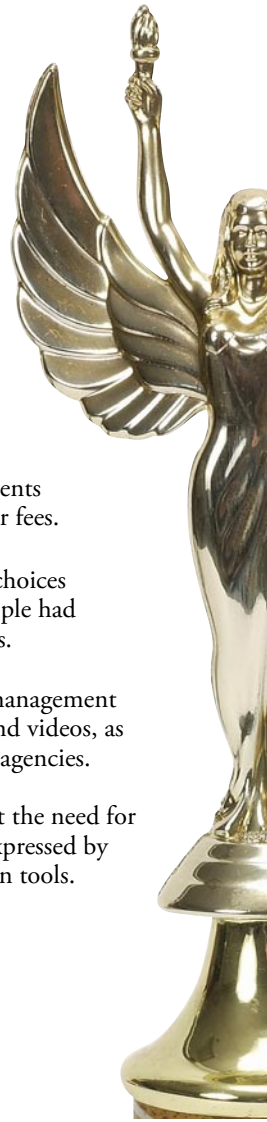
DFI engaged the services of the Social and Economic Sciences Research Center at Washington State University (WSU) to conduct a consumer study. WSU interviewed 891 Washington consumers who were victims of predatory lending, and 532 Washington consumers from the

general population to determine differences in characteristics or behaviors. This research showed that victims of predatory lending have a tendency to engage in risky financial behaviors on a regular basis such as: taking advances on credit cards, using payday lenders, and using pawnshops. Significant consumer findings included:

- Fifty-percent of predatory lending victims enter into financial transactions in a moment of desperation or as a response to an emergency; they need the money quickly and sign loan agreements without understanding how much they are paying in interest or fees.
- The victims are not confident in their ability to make suitable choices about their financial futures. Twenty-eight percent of these people had taken out two or more consolidation loans in the past five years.

The research also indicated that consumers want objective money management tools that are available through the Internet, computer programs, and videos, as well as through informational seminars provided by state or federal agencies.

The conclusions from this study are significant and strongly support the need for financial education in Washington State. To address the concerns expressed by consumers, DFI is developing more effective outreach and education tools.





## RAISING THE AWARENESS OF DFI

The Department expanded its communications and outreach program in 2003, and took a proactive approach by providing a variety of investor education and fraud prevention presentations aimed at senior citizens and students. Activities throughout the year included visits to high schools and senior centers, exhibits at consumer fairs, and DFI subject expert presentations to a variety of organizations and associations. The Department partnered with other state and federal agencies and local consumer advocate groups to maximize its opportunities to reach Washingtonians, and DFI was represented at 95 consumer fairs and gave 95 financial fraud training seminars in 2003.

In an effort to give consumers 24-hour access to financial documents and consumer tips, the staff worked to expand and organize the content of the Department's website. The increased outreach efforts resulted in a total of 116,249 page views to the consumer education portion of the web site.

Reporters from local and national newspapers contacted the Department regularly for quotes and comments on a variety of stories. In the last six months of 2003 alone, DFI handled over 100 requests from reporters.





# Division of Administration

The Division of Administration performs functions in the areas of budget and accounting, information technology and support, human resources, and facilities. In addition, the Division manages the Department's quality program.

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## DIVISION ACCOMPLISHMENTS FOR 2003

- In order to improve working conditions for its staff, DFI successfully completed an agency move to a new facility in Tumwater, Washington. (March 2003)
- The agency successfully implemented a new electronic leave system that allows for electronic tracking, routing and approval of all leave requests. This system eliminated the need to manually process and approve leave slips. The new system allows an approving supervisor to see current leave balances at time of approval. (May 2003)
- To improve security and protection of the agency's Information Technology, DFI developed a security program and implemented a new network security architecture. To reduce the risk of infection of IT resources, DFI staff implemented a patch management process to ensure that the latest software patches are applied to all PCs and servers in the agency. These actions resulted in major renovations of the DFI network to ensure business continuity in the event of a disaster.
- A disaster recovery plan was developed and tested. These changes will assure business continuity in the event of a disaster.



# Division of Banks

The Division of Banks was organized in 1907 and has responsibility for supervising commercial banks, trust companies, savings banks, savings and loan associations, and alien banks incorporated under the laws of the state of Washington.

The Division works directly with the institutions it regulates through examination and supervisory activity in an effort to assure the public of adequate services from the institutions. It seeks to ensure the protection of the interests of depositors, borrowers, shareholders, and consumers.

In 2003, Washington State chartered banks had good earnings, strong loan and deposit growth, and improved asset quality. Chartering activity slowed, but mergers and acquisitions picked up. The Division chartered one new trust company and one commercial bank changed from a national bank to a state charter. The Division's fiscal condition remains sound. Emphasis continued to be placed on training and development of employees, and remaining responsive to changes in the financial services markets.

## Statutes Administered by the Division of Banks

|                     |   |
|---------------------|---|
| > Title 30 RCW      | Banks and Trust Companies                   |
| > Chapter 31.24 RCW | Industrial Development Corporations         |
| > Chapter 31.35 RCW | Agricultural Lenders, Loan Guaranty Program |
| > Chapter 31.40 RCW | Federally Guaranteed Small Business Loans   |
| > Title 32 RCW      | Mutual Savings Banks                        |
| > Title 33 RCW      | Savings and Loan Associations               |

# Industry Facts at a Glance

## *Institutions Regulated by the Division of Banks*

Commercial Banks **65**

Savings Institutions **15**

Trust Companies **11**

Branches of foreign banks **1**

Total assets of banks and trust companies **\$105 billion**

1% FOREIGN BRANCHES

12% TRUST COMPANIES

16% SAVINGS INSTITUTIONS

71% COMMERCIAL BANKS

## REGULATED INSTITUTIONS BY CHARTER TYPE

### DIVISION MILESTONES AND ACCOMPLISHMENTS

- The Division chartered one new trust company in 2003.
- The Division completed scheduled examinations within their statutory timeframe with assistance from the Federal Deposit Insurance Corporation and the Federal Reserve Board.

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## NEW BANKS AND TRUST COMPANIES

- BECU Trust Company, Tukwila (February 2003)

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## CHARTER CONVERSIONS

- Northstar Bank, N.A., Seattle, converted from a national bank to a state chartered commercial bank. (June 2003)
- Rainier Pacific Savings Bank, Fife, converted from a mutual savings bank to a stock savings bank.

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## MERGERS AND ACQUISITIONS

- Valley Bank, Auburn, merged into Puyallup Valley Bank, Puyallup. (January 2003)
- Empire Federal Bancorp, Inc., a Delaware Corporation, merged into Sterling Financial Corporation. (February 2003)
- Bank of Latah, St. Maries, Idaho, merged into AmericanWest Bank, Spokane. (March 2003)
- Today's Bank, Vancouver, and Today's Bancorp, Inc., Vancouver, merged into Riverview Community Bank, Vancouver, and Riverview Bancorp, Inc., Vancouver. (July 2003)
- United Savings and Loan Bank, Seattle, merged into Washington Federal Savings and Loan Association, Seattle. (August 2003)

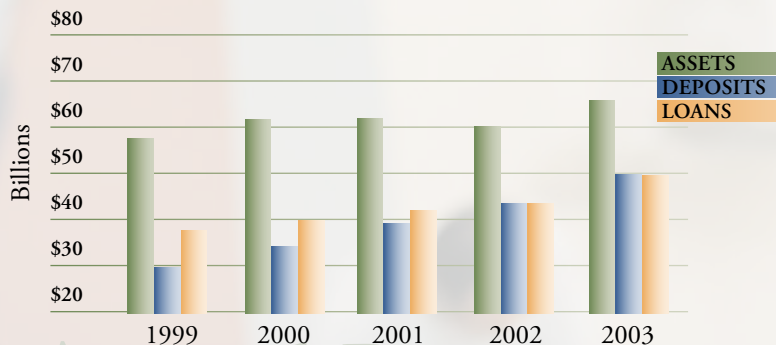
- Klamath First Bancorp, Inc., Klamath Falls, Oregon, and its subsidiaries, merged into Sterling Financial Corporation, Spokane. (September 2003)
- Oregon Trail Financial Corporation, Baker City, Oregon, merged into FirstBank NW Corporation, Clarkston. (October 2003)
- Pioneer Bank, Baker City, Oregon, merged into FirstBank Northwest, Clarkston. (October 2003)

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## NAME CHANGES

- Puyallup Valley Bank, Puyallup, changed its name to Valley Bank. (January 2003)
- Northwest International Bank, Seattle, changed its name to Northwest Business Bank. (February 2003)
- First Community Bank, Lacey, changed its name to Venture Bank. (February 2003)

### STATE CHARTERED COMMERCIAL BANKS & SAVINGS INSTITUTIONS END-OF-YEAR FIGURES



# Division of Banks: Key Statistics

|  | 1999 | 2000 | 2001 | 2002 | 2003 |
|--|------|------|------|------|------|
| Number of State Chartered Commercial Banks     | 64   | 65   | 62   | 66   | 65   |
| Number of State Chartered Savings Institutions | 15   | 16   | 16   | 16   | 15   |

All numbers are end of year figures in thousands (000)

|            | 1999         | 2000         | 2001         | 2002         | 2003         |
|------------|--------------|--------------|--------------|--------------|--------------|
| Assets     | \$57,320,919 | \$60,681,325 | \$61,420,119 | \$60,319,174 | \$65,893,648 |
| Deposits   | \$29,579,791 | \$33,513,225 | \$38,698,270 | \$43,495,732 | \$49,240,749 |
| Loans      | \$36,948,510 | \$40,330,554 | \$42,171,392 | \$43,033,713 | \$48,905,974 |
| Net Income | \$ 607,140   | \$ 524,675   | \$ 896,159   | \$ 696,116   | \$ 898,519   |

## STATE CHARTERED BANKS' FINANCIAL INFORMATION

| Commercial Banks     | 1999         | 2000         | 2001         | 2002         | 2003         |
|----------------------|--------------|--------------|--------------|--------------|--------------|
| Assets               | \$11,852,303 | \$17,662,563 | \$20,046,062 | \$22,561,305 | \$24,364,645 |
| Deposits             | \$9,717,263  | \$13,603,608 | \$15,427,455 | \$17,852,336 | \$19,048,551 |
| Loans                | \$8,682,816  | \$12,821,970 | \$15,002,515 | \$16,286,426 | \$17,263,526 |
| Net Income           | \$156,285    | \$ 206,902   | \$ 206,471   | \$ 248,614   | \$ 272,098   |
| Savings Institutions | 1999         | 2000         | 2001         | 2002         | 2003         |
| Assets               | \$45,468,616 | \$43,018,762 | \$41,374,057 | \$37,757,869 | \$41,529,003 |
| Deposits             | \$19,862,528 | \$19,909,617 | \$23,270,815 | \$25,643,396 | \$30,192,198 |
| Loans                | \$28,265,694 | \$27,508,584 | \$27,168,877 | \$26,747,287 | \$31,642,448 |
| Net Income           | \$450,855    | \$317,773    | \$689,688    | \$447,502    | \$626,421    |







# Division of Consumer Services

The Division of Consumer Services regulates the business activities of consumer loan companies, mortgage brokers, money transmitters and currency exchangers, check cashers, check sellers and payday lenders. The Division reviews license applications, issues licenses, examines the books and records of licensees for compliance with state and federal laws, investigates violations and consumer complaints against licensees, and initiates enforcement actions against licensees who violate the law.

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## DIVISION MILESTONES AND ACCOMPLISHMENTS

- Worked closely with the Attorney General and the Insurance Commissioner on the Household/Beneficial settlement to identify damages and award amounts to consumers in the largest predatory lending settlement in U.S. history. In December 2003, checks totaling \$21.15 million were mailed to 10,419 Washington customers of Household/Beneficial who were eligible for restitution under the settlement.
- The Division promulgated new rules implementing Substitute House Bill 1081 which created a mortgage lending fraud prosecution account. The account is funded through recording fees collected by county auditors. The money is then transferred to an account that funds prosecutions as approved by DFI.

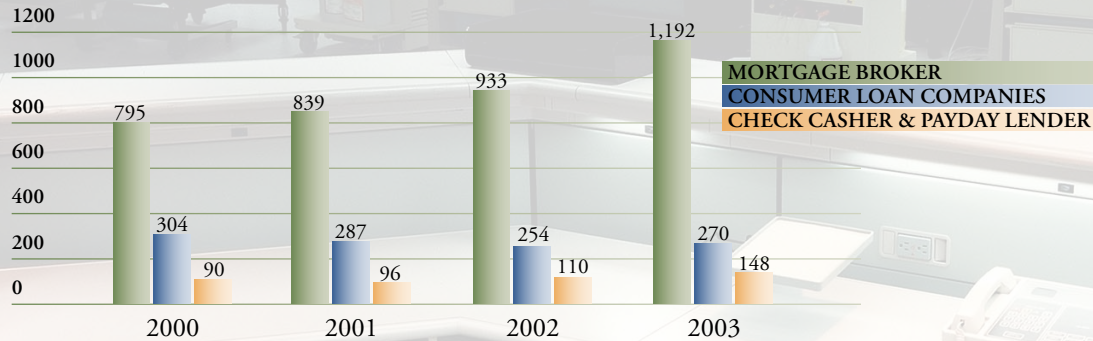
### Statutes Administered by the Division of Consumer Services

|                    |                                    |
|--------------------|------------------------------------|
| Chapter 31.04 RCW  | Consumer Loan Act                  |
| Chapter 31.45 RCW  | Check Cashers and Sellers Act      |
| Chapter 19.146 RCW | Mortgage Broker Practices Act      |
| Chapter 19.230 RCW | Uniform Money Services Act         |
| Chapter 43.320 RCW | Mortgage Fraud Prosecution Account |

- The Division issued a final order against Nationscapital Mortgage Company resulting in approximately \$1.5 million in restitution to consumers, and fines against the company and individuals for a number of deceptive practices.

# Industry Facts at a Glance

## REGULATED ENTITIES BY GROUP



|  |       |
|--|-------|
| Mortgage Broker Licenses                         | 1,192 |
| Mortgage Broker Branch Office Licenses           | 629   |
| Consumer Loan Company Licenses                   | 270   |
| Consumer Loan Company Branch Office Licenses     | 811   |
| Money Transmitter and Currency Exchange Offices* | 23    |
| Check Casher/Seller Licenses                     | 148   |
| Payday Lender Licenses                           | 124   |

\*Licensing program began October 2003

# Regulated Institutions

| <b>Mortgage Brokers</b> | <b>2000</b> | <b>2001</b> | <b>2002</b> | <b>2003</b> |
|-------------------------|-------------|-------------|-------------|-------------|
| Companies               | 795         | 839         | 933         | 1,192       |
| Branch Offices          | 337         | 350         | 441         | 629         |
| Consumer Complaints     | 152         | 185         | 295         | 402         |

| <b>Consumer Loan Companies</b>             | <b>2000</b>     | <b>2001</b>     | <b>2002</b>     | <b>2003</b>     |
|--|-----------------|-----------------|-----------------|-----------------|
| Companies                                  | 304             | 287             | 254             | 270             |
| Branch Offices                             | 599             | 617             | 720             | 811             |
| Consumer Refunds                           | \$1,034,795     | \$213,784       | \$1,229,552     | \$123,844       |
| Consumer Complaints                        | 328             | 195             | 333             | 359             |
| Loans Made During Period*                  | 43,254          | 59,836          | 71,743          | 86,315          |
| Total Dollars in Loans Made During Period* | \$1,611,485,003 | \$2,270,449,440 | \$5,137,363,495 | \$9,913,792,697 |

\*Refers to real estate loans that use borrower's home as security for the loan

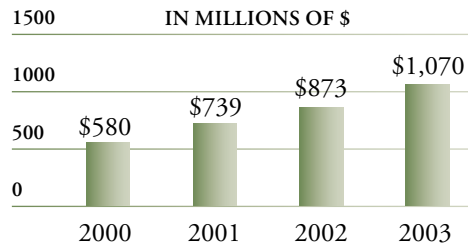
| <b>Check Cashers</b>                         | <b>2000</b>   | <b>2001</b>   | <b>2002</b>   | <b>2003</b>   |
|--|---------------|---------------|---------------|---------------|
| Companies                                    | 109           | 110           | 121           | 139           |
| Branch Offices                               | 306           | 365           | 392           | 542           |
| Consumer Complaints                          | 4             | 0             | 0             | 1             |
| Checks Cashed During Period                  | 1,354,427     | 1,839,397     | 6,454,950     | 2,612,526     |
| Dollar Amount of Checks Cashed During Period | \$575,991,499 | \$593,882,580 | \$834,735,294 | \$938,985,616 |

| Check Sellers                               | 2000          | 2001          | 2002          | 2003          |
|---|---------------|---------------|---------------|---------------|
| Companies                                   | 10            | 8             | 8             | 9             |
| Branch Offices                              | 9             | 8             | 7             | 8             |
| Consumer Complaints                         | 0             | 1             | 0             | 1             |
| Checks Sold During Period*                  | 1,325,117     | 1,426,531     | **550,329     | 1,158,438     |
| Dollar Amount of Checks Sold During Period* | \$252,827,536 | \$263,592,037 | \$133,239,667 | \$226,641,820 |

\*Includes checks sold as an agent of exempt company

\*\*Decrease due to change in money order reporting requirements

| Payday Lenders                                 | 2000          | 2001          | 2002          | 2003            |
|--|---------------|---------------|---------------|-----------------|
| Companies                                      | 90            | 96            | 110           | 124             |
| Branch Offices                                 | 287           | 286           | 317           | 378             |
| Consumer Complaints                            | 0             | 3             | 6             | 8               |
| Small Loans Made During Period                 | 1,832,782     | 2,186,333     | 2,337,359     | 2,983,477       |
| Total Amount of Small Loans Made During Period | \$580,535,734 | \$739,540,654 | \$873,339,989 | \$1,069,695,069 |



**SMALL LOANS MADE  
BY PAYDAY LENDERS**





## Enforcement Statistics

| 2003 Orders Entered     | Statement of Charges | Summary Cease & Desist or Suspension | Final Cease & Desist or Revocation | Consent Order | Total |
|-------------------------|----------------------|--------------------------------------|------------------------------------|---------------|-------|
| Actions                 | 25                   | 3                                    | 8                                  | 13            | 49    |
|                         | 2000                 | 2001                                 | 2002                               | 2003          |       |
| Complaints*             | 420                  | 481                                  | 842                                | 1025          |       |
| Charges & Orders Issued | 15                   | 22                                   | 18                                 | 52            |       |
| Investigations Opened   | 14                   | 18                                   | 43                                 | 29            |       |
| Investigations Closed   | 8                    | 18                                   | 104                                | 93            |       |

\* Includes complaints filed against non-licensees

# Division of Credit Unions

Linda Jekel, Director of Credit Unions

## Statutes Administered by the Division of Credit Unions

- > Chapter 31.12 RCW  
The Washington State  
Credit Union Act
- > Chapter 31.13 RCW  
The Corporate Credit Union Act

The Division of Credit Unions was created in 1993. Before that, the Division of Savings and Loan Associations regulated state credit unions.

Credit unions are nonprofit, cooperative associations organized to promote thrift among their members and create a source of credit for them at fair and reasonable rates.

The Division examines credit unions at least every 18 months for unsafe and unsound practices, and violations of statutes and rules. It uses a variety of examination and supervision tools to accomplish its mission. In addition, the Division processes a variety of applications from state credit unions such as merger

and conversion applications. The Division also works with consumers regarding complaints against state credit unions.

Washington state chartered credit unions prospered in 2003. However, they are consolidating into fewer numbers due to competitive pressures from other financial services providers (such as banks, mortgage brokers, and consumer loan companies). A similar trend is evident nationally in the credit union industry.

The remaining credit unions are healthy, with strong net worth for future growth and loss reserves. Net worth ratios increased to 9.7 percent. Due to better marketing, credit union membership continued to grow supporting and strengthening the credit union movement and resulting in more loans and deposits. Total loans grew 7.2 percent to \$10.6 billion, and total shares and deposits grew 7.2 percent to \$14.1 billion.

|   |                |
|---|----------------|
| Number of state chartered credit unions       | 87             |
| Total assets of state chartered credit unions | \$16.2 billion |
| Total state chartered credit union members    | 1,880,787      |



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## DIVISION MILESTONES AND ACCOMPLISHMENTS

- Mike Delimont was appointed as Program Manager for Division of Credit Unions (DCU).
- Trust Compliance Consultants was hired to perform information services examinations.
- Examined all credit unions within the requirements of the RCWs, using risk-focused scheduling.
- Strengthened procedures for working with credit unions with chronic problems.
- Initiated outreach to learn of credit union competitive needs through onsite visits to 75% of credit union league chapters.
- TULIP Credit Union, the first new chartered credit union in ten years, opened their doors to begin operation.

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## NEW CREDIT UNION CHARTERS

- TULIP Credit Union granted a new credit union charter. (October 2003)

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## CHARTER CONVERSIONS

- Credit Union of the Pacific converted to a federal thrift charter. (January 2003)
- Quimper Credit Union converted to a federal credit union charter. (June 2003)

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## MERGERS

- Valley Community Federal Credit Union merged into Sound Credit Union. (April 2003)
- Washington State Bar Association Credit Union merged into Credit Union Northwest. (February 2003)
- North Central Credit Union merged into Numerica Credit Union. (June 2003)
- Teamsters Credit Union merged into Seattle Metro Credit Union. (August 2003)
- Metro Pacific Credit Union merged into Qualstar Credit Union. (October 2003)
- Tradition Credit Union merged into Evergreen Postal Employees Credit Union. (October 2003)

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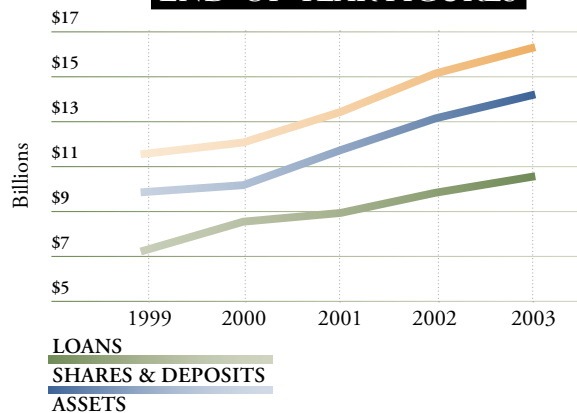
## NAME CHANGES

There were no name changes for credit unions in 2003.

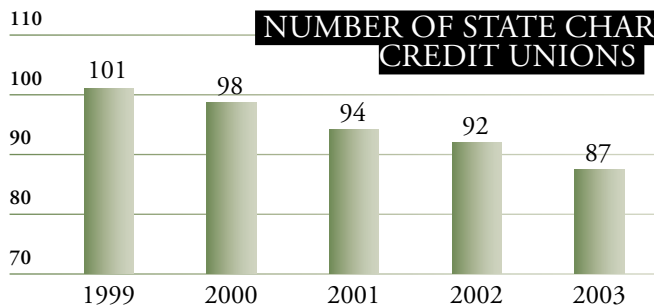
All numbers are end of year figures in thousands (000)

|                                 | 2000         | 2001         | 2002         | 2003         |
|---------------------------------|--------------|--------------|--------------|--------------|
| Loans & Contracts               | \$8,537,673  | \$8,947,804  | \$9,843,563  | \$10,553,569 |
| Total Assets                    | \$12,134,688 | \$13,388,339 | \$15,109,748 | \$16,239,395 |
| Shares & Deposits               | \$10,200,011 | \$11,692,689 | \$13,183,696 | \$14,129,834 |
| Net Worth                       | \$1,201,927  | \$1,263,772  | \$1,458,360  | \$1,577,682  |
| Net Income                      | \$85,206     | \$86,715     | \$160,768    | \$149,457    |
| Net Worth to Total Assets Ratio | 9.89%        | 9.43%        | 9.65%        | 9.71%        |

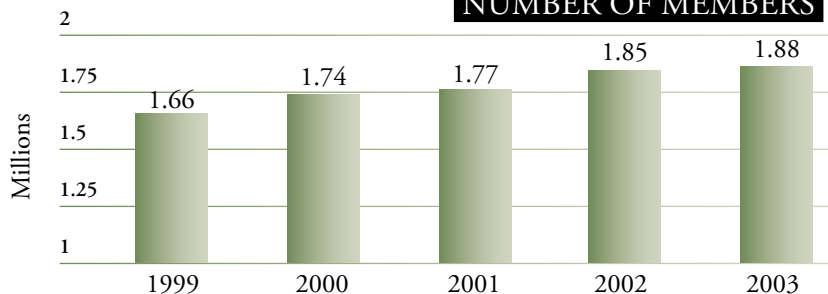
## STATE CHARTERED CREDIT UNIONS END-OF-YEAR FIGURES



## NUMBER OF STATE CHARTERED CREDIT UNIONS



## NUMBER OF MEMBERS





# Division of Securities

The Division of Securities regulates the offer and sale of investments and escrow services to Washington state residents. The Division uses a variety of regulatory and enforcement tools including registration requirements for securities, franchise and business opportunity offerings, and licensing and examination of securities broker-dealers, investment advisers, and escrow agents and officers.

The Division provides technical assistance to small businesses, responds to customer complaints, undertakes investigations based upon complaints and undercover work, and brings appropriate administrative, civil and criminal cases. Over 100,000 firms and individuals

provide securities investments and advice to our citizens. More than \$519 billion of securities products were offered to Washington investors in 2003.

The Division works directly with the entities it regulates through exam and market surveillance activity in an effort to assure the public of adequate protection for their investments. A total of 116 enforcement actions were taken this year, and the Division assisted in the preparation of nine criminal cases.

## Statutes Administered by the Division of Securities

- > Chapter 18.44 RCW Escrow Agent Registration Act\*
- > Chapter 19.100 RCW Franchise Act
- > Chapter 19.110 RCW Business Opportunity Act
- > Chapter 21.20 RCW Securities Act
- > Chapter 21.30 RCW Commodities Act

\* Program transferred from Division of Consumer Services September 2003.

# Industry Facts at a Glance

|                                      |        |
|--------------------------------------|--------|
| Registered Securities Salespersons   | 97,609 |
| Registered Securities Broker-Dealers | 2,106  |
| Branch Offices of Broker-Dealers     | 2,125  |
| Regulated Investment Advisers        | 1,478  |
| Investment Adviser Representatives   | 5,824  |
| Registered Franchises                | 777    |
| Registered Escrow Agents             | 204    |
| Registered Escrow Officers           | 347    |

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## DIVISION MILESTONES AND ACCOMPLISHMENTS

- The Division expanded the system of electronic filing of mutual funds to over 50 percent of applicants. This eliminates double entry of thousands of applications – reducing processing time, and significantly reducing revenue errors.
- In July 2003, the Division implemented a scan-store-retrieve imaging system for registration, licensing and field exams. This system improves staff access to documents, facilitates group review of complex and sensitive applications, streamlines our public disclosure request process, and reduces the need to store paper documents.
- In September 2003, the Division took over licensing, examination and enforcement of escrow agents and officers from our Division of Consumer Services. The staff is working with the Escrow Commission and industry groups to resolve interpretive and policy issues, and is updating databases to better track escrow related licensing and compliance information.
- In the summer of 2003, the Division played a significant role in the investigation and settlement of the Wall Street research analyst cases. Under the terms of the settlement, the State of Washington received over \$7 million in fines and penalties and the Securities Division itself recovered over \$340,000 of its costs to investigate and participate in the cases.





- During the three-year investigation of Znetix/HMC, DFI spent an estimated 12,000 hours uncovering the largest Ponzi scheme in Washington history. DFI worked with federal prosecutors to uncover a maze of domestic and offshore accounts used to conceal investor funds totaling close to \$100 million. The case involved over 5,000 investors from 36 states and several foreign countries.
- The passage of SHB 1219 provided a number of enhancements to the Securities Act of Washington and the enforcement tools available to DFI. The legislation created a prosecution fund to aid local prosecutors in the bringing of securities fraud and other investment fraud related cases. The legislation made it a crime for any person who knowingly alters, destroys, shreds or conceals documents to prevent their use in civil or criminal proceedings under the Securities Act. The legislation also increased all fines and penalties and makes violation of a DFI cease and desist order of the Division subject to a specific fine of \$25,000. New remedies available in the act include obtaining an accounting, disgorgement of illegal profits, and restitution to investors.

#### STATISTICS RELATED TO STATUTES ADMINISTERED BY THE DIVISION OF SECURITIES

| Securities   | 2001              | 2002              | 2003              |
|--|-------------------|-------------------|-------------------|
| Dollar Amount of Securities Permits, Notifications and Exemptions Authorized | \$489,215,823,523 | \$579,056,623,456 | \$519,368,524,783 |
| Registered Securities Broker-Dealers   | 2,124             | 2,104             | 2,106             |
| Registered Investment Advisers   | 416               | 424               | 522               |
| Investment Adviser Notice Filers   | 894               | 940               | 956               |
| Registered Securities Salespersons   | 101,783           | 97,982            | 97,609            |
| Registered Investment Adviser Representatives                                | 5,167             | 5,450             | 5,824             |
| Branch Offices of Broker-Dealers   | 2,158             | 2,138             | 2,125             |
| Active Enforcement Cases   | 121               | 132               | 115               |
| Enforcement Actions  | 71                | 84                | 88                |
| Complaints   | *                 | *                 | 369               |

\* Data collected differently in 2001, 2002.

| Commodities              | 2001 | 2002 | 2003 |
|--------------------------|------|------|------|
| Active Enforcement Cases | 1    | 3    | 2    |
| Complaints               | *    | *    | 2    |

| Franchises                   | 2001 | 2002 | 2003 |
|------------------------------|------|------|------|
| Registered Franchises        | 689  | 689  | 777  |
| Registered Franchise Brokers | 74   | 74   | 86   |
| Active Enforcement Cases     | 12   | 12   | 12   |
| Enforcement Actions          | 10   | 10   | 10   |
| Complaints                   | *    | *    | 38   |

| Escrow                     | 2001 | 2002 | 2003 |
|----------------------------|------|------|------|
| Registered Escrow Offices  | **   | **   | 204  |
| Registered Escrow Officers | 309  | 287  | 347  |
| Active Enforcement Cases   | **   | **   | 12   |
| Enforcement Actions        | **   | **   | 6    |
| Complaints                 | 29   | 57   | 46   |

| Business Opportunities            | 2001 | 2002 | 2003 |
|-----------------------------------|------|------|------|
| Registered Business Opportunities | 40   | 37   | 30   |
| Active Enforcement Cases          | 28   | 17   | 9    |
| Enforcement Actions               | 11   | 13   | 10   |
| Complaints                        | *    | *    | 46   |

\* Data collected differently in 2001, 2002.

\*\* Program transferred from Division of Consumer Services October 2003. Numbers unavailable due to change in method of data collection.





**REGISTRATION AND LICENSING ACTIVITY TOTALS FOR 2003****NEW****RENEW****REGISTRATIONS, EXEMPTIONS & NOTIFICATIONS**

|  |              |               |
|--|--------------|---------------|
| Investment Companies                       | 2,124        | 14,678        |
| Small Business Filings (SB-2s)             | 11           | 3             |
| Other Coordination Filings                 | 53           | 33            |
| Qualifications                             | 35           | 8             |
| SCOR (Small Company Offering Registration) | 1            | 0             |
| Franchises                                 | 165          | 613           |
| Exemptions                                 | 1,404        | 1             |
| Opinions                                   | 22           | 0             |
| Franchise Exemptions                       | 10           | 80            |
| Business Opportunities                     | 18           | 14            |
| <b>TOTAL</b>                               | <b>3,843</b> | <b>15,430</b> |

**FIRMS & ENTITIES**

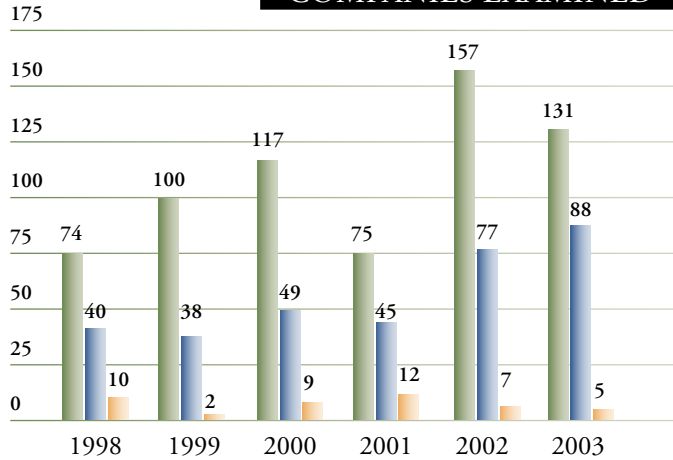
|                           |     |       |
|---------------------------|-----|-------|
| Securities Broker-Dealers | 171 | 2,038 |
| Investment Advisers       | 200 | 1,308 |
| Franchise Brokers         | 123 | 92    |

**REPRESENTATIVES & SALESPERSONS**

|                                      |               |                |
|--------------------------------------|---------------|----------------|
| Investment Adviser Representatives   | 1,754         | 5,809          |
| Intrastate Securities Salespersons   | 8             | 44             |
| Agents of Issuers                    | 9             | 10             |
| Securities Salespersons              | 29,304        | 97,599         |
| Salespersons with Disclosure History | 3,239         | 0              |
| <b>TOTAL</b>                         | <b>34,808</b> | <b>106,900</b> |

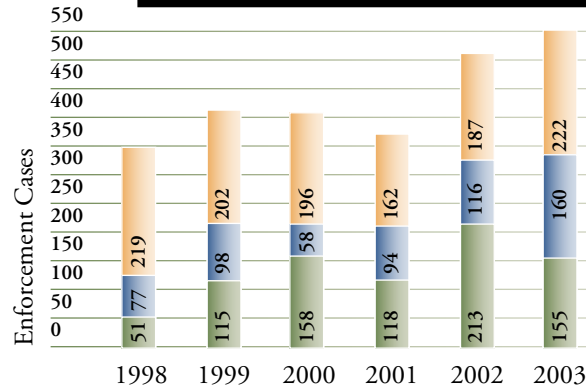
# 2003 Annual Report

## COMPANIES EXAMINED



BROKER-DEALER EXAMS COMPLETED  
 INVESTMENT ADVISER EXAMS COMPLETED  
 MORTGAGE BROKER-DEALER & DEBENTURE CO. EXAMS COMPLETED

## ENFORCEMENT STATISTICS

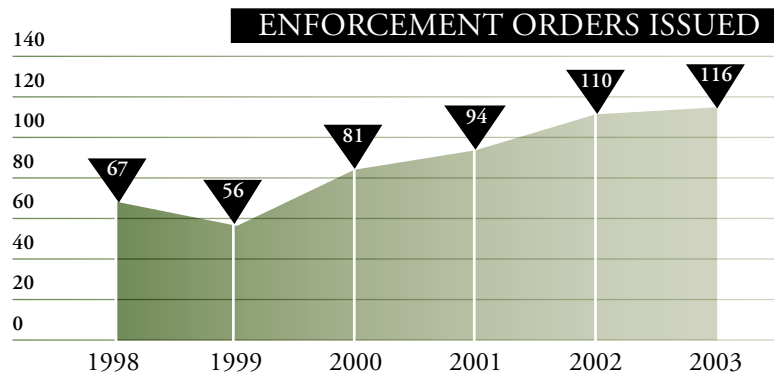


CLOSED ENFORCEMENT CASES  
 OPENED ENFORCEMENT CASES  
 ENFORCEMENT CASES IN PROCESS

## EXAMINATION STATISTICS

|  | 2000 | 2002 | 2003 |
|--|------|------|------|
| Broker-Dealer Exams Completed                              | 76   | 157  | 131  |
| Investment Adviser Exams Completed                         | 45   | 77   | 88   |
| Mortgage Broker-Dealer & Debenture Company Exams Completed | 12   | 7    | 5    |
| TOTAL  | 133  | 241  | 224  |

| 2003 types of orders entered           | Statement of Charges | Summary Cease & Desist or Suspension | Final Cease & Desist or Revocation | Consent Order | Total      |
|--|----------------------|--------------------------------------|------------------------------------|---------------|------------|
| Securities Issuers                     | 4                    | 20                                   | 11                                 | 16            | 51         |
| Broker-Dealers and Investment Advisers | 12                   | 7                                    | 5                                  | 14            | 38         |
| Franchises                             | 0                    | 4                                    | 1                                  | 5             | 10         |
| Business Opportunities                 | 1                    | 3                                    | 3                                  | 3             | 10         |
| Escrow                                 | 5                    | 0                                    | 0                                  | 1             | 6          |
| Commodities                            | 0                    | 1                                    | 0                                  | 0             | 1          |
| <b>Total Actions</b>                   | <b>22</b>            | <b>35</b>                            | <b>20</b>                          | <b>39</b>     | <b>116</b> |



|                      | 2001 | 2002 | 2003 |
|----------------------|------|------|------|
| Complaints           | 490  | 496  | 501  |
| Orders Issued        | 74   | 110  | 116  |
| Warning Letters      | 50   | 61   | 98   |
| Cases Opened         | 94   | 116  | 180  |
| Cases In Process     | 162  | 187  | 222  |
| Cases Closed         | 118  | 213  | 155  |
| Subpoenas Issued     | 343  | 375  | 230  |
| Criminal Referrals   | 3    | 10   | 8    |
| Criminal Charges     | 3    | 8    | 8    |
| Criminal Convictions | 3    | 5    | 7    |
| Criminal Sentencing  | 3    | 2    | 5    |

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WASHINGTON STATE  
DEPARTMENT OF  
**FINANCIAL**  
INSTITUTIONS